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PLAN TO BEAR FRUIT:

FRUTAFORMAS' INTERNATIONALIZATION TO THE UNITED KINGDOM

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ABSTRACT

Frutaformas is a Portuguese micro-enterprise, specialized in the production of premium dehydrated-fruit, an emerging snack category fostered by the increasing trend for healthier alimentary habits in developed countries. The relatively small size of the domestic market and the growing competition led Frutaformas to consider Europe as an attractive for export market. A scoring model based on a set of macro and micro-level criteria suggested the United Kingdom as the preferential target country at this stage. Recommendations on the entry mode and the associated risks were elaborated taking into account the country and industry analysis as well as Frutaformas' unique organizational platform.

Keywords: Frutaformas, Internationalization, Dried-fruit snacks, United Kingdom

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INTRODUCTION

Fruit snacks and nuts have been the fastest growing snack categories in developed countries as consumers increasingly seek natural and healthy alternatives instead of the traditional sweet and savoury snacks. Frutaformas, a recently established Portuguese firm, specialized in the production of premium dehydrated-fruit snacks, aims to take its first steps towards internationalization, considering the European continent as the target geography at this stage.

The purpose of the present work project is, therefore, to evaluate the relative market attractiveness of the set of considered countries in order to select the preferential target market as well as the respective mode of entry, taking into account the firm's capabilities and resources.

This report is organized as follows. The next section describes the methodology, followed by a literature review on the internationalization field. Later, a company situational analysis is presented including: an internal and external analysis, the competitive advantage and the SWOT-TOWS framework, culminating with the assessment of the firm's internationalization readiness. Later, a country selection is presented consisting in a combination of two methods: gradual elimination and ranking. The next section provides an in-depth analysis of the selected country at an industry and competition-level. Later, an entry mode is suggested, followed by a financial and risk analysis and closing with a set of relevant recommendations.

METHODOLOGY

Data for this report were gathered from September-December 2015 through both primary and secondary research types. Primary research consisted in structured as well as in-depth interviews with Frutaformas' managers from which both quantitative and qualitative data was obtained, subject however to some confidentiality constraints. The secondary research, in turn, included bibliographic resources comprising books, journals, articles and papers, as well as online sources among which the online databases from Euromonitor, World Bank, International Monetary Fund (IMF), The Economist Intelligence Unit and The Heritage Foundation were the

main sources used in the scoring model. In addition, a CORE™ Tool available online on globalEDGE platform was used to assess the company's readiness to export.

LITERATURE REVIEW

Although there is no unanimity regarding the concept of “internationalization” of the firm, it has been usually described as “*the process of increasing involvement in international operations*” (Welch and Luostarinen, 1988). The research dates back to the late 1950s and 1960s where it focused on large multinational enterprises (MNEs), the so-called economic approach. At the time, the foreign markets were characterized by comparatively higher entry barriers and the “*internationalization was the luxury of the largest and strongest firms*” (Saarenketo et al., 2004). Later, an attempt of several countries, especially those experiencing balance of payment deficits, to increase the international activities of their SMEs (Ruzzier *et al.*, 2006), contributed, in part, to a larger visibility of the SME internationalization field and theories applicable to SMEs have emerged, comprising, among others: the Stage models (Uppsala and Innovation-related models), the Network and the Resource-based approach.

The **Uppsala internationalization stages model** (U-model) is grounded on the view of the internationalization as a gradual process in which a firm expands its operations into external markets through the following four subsequent steps - no regular export activities, export via independent representative, establishment of a sales subsidiary and location of a manufacturing unit (Johanson and Wiedersheim-Paul, 1975). Revised later, the U-model represents a dynamic model in which the present state of internationalization, composed by the resource commitment to and knowledge about the foreign markets (state aspects), is an input of the following internationalization course, namely the commitment decisions and the performance of current activities (change aspects). The so-called change aspects, in turn, affect the market knowledge and the resource commitment to the foreign markets (Johanson and Vahlne, 1977). The **innovation-related models** (I-models) of internationalization, developed later, describe each

subsequent stage as an innovation for the firm based on Vernon's (1966) product life-cycle model (Gankema et al. 2000). The **network approach** goes beyond the models of incremental internationalization by suggesting that international market development activities emerge from, and are shaped by, an external web of formal and informal relationships (Coviello and Munro 1997). Firms enter into foreign markets by using both domestic and international network relationships to establish their presence, making the networking with home country suppliers and business partners helpful to expand the operations overseas (Blomstermo *et al.*, 2004). The structural embeddedness (diversity of the network) facilitates the acquisition of knowledge related to the political, cultural, and legal environments, while relational embeddedness (ties strength) motivates network members to exchange information more freely and frequently (Musteen *et al.*, 2014). According to this approach, network relations increase the speed of internalization. The **resource-based view (RBA)**, based on the assumption that resources heterogeneity and its immobility across firms may provide a competitive advantage (Barney, 1991), suggests that the choice of location and of entry mode as well as the success in the foreign operations of a firm is primarily determined by the entrant firm's ability to transfer its key resources to the target country (Sharma and Erramilli, 2004).

In terms of entry mode, a **foreign market entry mode** is defined as an institutional arrangement that concretizes the entry of a company's products, technology, human skills, management, or other resources into a foreign country and can be classified as export, contractual or investment entry modes. In **export entry modes**, the product is manufactured outside the target country being subsequently transferred to it and distributed through a middleman located in the domestic market (indirect exporting), through the target country middlemen (direct agent/distributor exporting) or the company's own operating unit (direct branch/subsidiary exporting). The latter requires an equity investment in order to establish a marketing presence in the target country. **Contractual entry modes**, such as licensing and franchising presupposes

the transfer of knowledge and skills to a foreign entity without requiring equity investment as it happens in **investment entry modes** which involve ownership of manufacturing plants or other production units in the target country (Root 1987).

Based on the firm analysis presented below, the Uppsala model is the theory that matches the company's prospects towards internationalization, being the foreign market entry mode, therefore, influenced, in part, by the company's embryonic stage.

INTERNAL ANALYSIS

Company overview

Frutaformas[®], a Portuguese company specialized in dried-fruit snacks, was created in 2012 as a result of a consortium between Azevagro, focused on the production and sales of pears and grapes, and NSProjects, whose offer include marketing and sales services, having each of these companies 50% of the participation. Frutaformas is classified as a micro-enterprise, since it employs 7 persons and its turnover reached €88.446 in 2014¹. The company has been growing, which is reflected in its sales, expected to reach €283.839 in 2015.

Situated in Bombarral², the company is closely located to its **main suppliers** recognized by the quality of regional fruit - “Alcobaça” apple and “Rocha” pear, which in addition to the Azorean pineapple are the main inputs for the dehydrated apple, pear and pineapple Frutaformas' snacks. The company's **product portfolio** can be divided in terms of: (i) product lines created to appeal different consumer segments and (ii) product types resulted from differences in the dehydration process which yield different textures. In terms of product lines, these comprise: Healthy (focuses on the consumer's whose main concern is the health benefit of the snack), Gourmet (creates an additional value through differentiated packaging) and Corporate line (targets specifically the companies through the small-size and personalized packaging, advertising it as

¹ According to the European Union classification, a microenterprise is defined as an enterprise which employs less than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 2 million €.

² Portuguese municipality in the Oeste subregion, known as a considerably fertile agricultural region.

a gift a firm may offer to its clients, employees or partners) [**Appendix 1**]. Regarding the product type, products differ in terms of texture: Crunchy (*Croca*, *Frutinhas*), Soft (*Delícias*) as well as the fruit bars (*Lingotes*). In terms of product lines, Gourmet and Healthy lines jointly represent 95% of total revenues, almost equally split, while in terms of texture, crunchy is the largest category, followed by the fruit bars, in terms of both volume and value [**Appendix 2**]. In terms of **human resources**, the management of Frutaformas is the responsibility of two partners: one being accountable for the supervision of the production process and new product development, while the other is devoted to the Marketing and Sales. Besides the two partners, Frutaformas' team includes five employees: Marketing and Sales manager, Production manager and three operators directly responsible by the manufacturing process.

Other resources owned by the company include the factory in Bombarral, recently acquired in order to adapt the production to the registered growth in demand³ as well as the specialized equipment for the dehydration and the packaging processes. In terms of intangible resources, Frutaformas holds the trademarks of Frutaformas® and Croca®, however there is no patent for any product internally developed. In addition, despite its small experience, Frutaformas' products have yielded some national and international recognition (distinction in the Nutrition Awards⁴ as well as in the Great Taste Awards⁵), a valuable intangible resource that can leverage company's growth in both domestic and international markets.

Frutaformas' **distribution channels** include its own online store, gourmet shops (such as the *Club del Gourmet* in the *El Corte Inglés* shopping center), grocery shops as well as some specialized stores. In addition, Frutaformas supplies dehydrated apple to the Portuguese *GoNatural* franchisees which subsequently incorporates it in its menus under its own brand.

³ The company is currently operating at approximately 50% of its production capacity.

⁴ Nutrition Awards seeks to recognize innovative initiatives in the agri-food industry in Portugal.

⁵ Great Taste Awards aims to reward the best worldwide food and drinks, being usually described as the "Oscars" of the food world.

Mission, vision and strategic objectives

Frutaformas' mission is to transform the authentic Portuguese fruit in a traditional and differentiated product, keeping its taste and nutritional value. The company has a vision of being recognized as one of the main Iberian players in the dried fruit and vegetable market with high health benefits. Frutaformas' main strategic objective is to internationalize in order to increase its production volume and take advantage of the economies of scale, improving the company's ability to cope with the growing competition in the market.

EXTERNAL ANALYSIS

Industry analysis

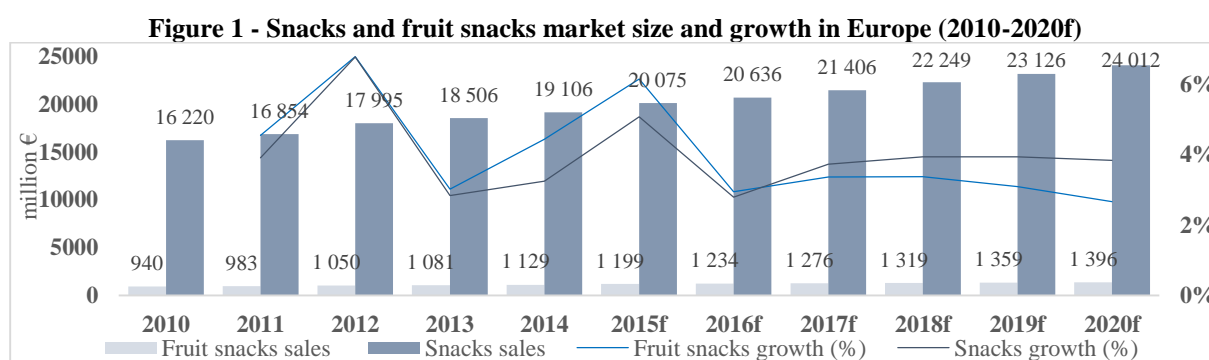
To understand the dried-fruit snacks market, a note regarding the dried fruit industry is presented below. The dried fruit industry comprises fruits from which the water content was removed either through sun drying or a specialized dehydration process, which increases its caloric content. Traditionally, dried fruit covered dried grapes (53%), dates (30%), prunes (9%), figs (5%) and apricots (3%) consumed either directly or as an ingredient for other products [Appendix 3]. The main producers are Turkey (16%), USA (16%) and Iran (12%) [Appendix 4], while the highest dried fruit consumption per capita is registered in the United Kingdom (2,2kg per year), Germany, France, Belgium and Switzerland [Appendix 5]. Recently, due to the increasing health and wellness concern in developed countries, a growing demand for natural and healthy snacks has been observed. As a result, dried fruit has been increasingly sold as an alternative snack, perfectly fitting the emerging trend. In addition to the traditional dried fruit, apples, pears, bananas, pineapples have also started to be offered in its dried version.

Industry definition: For the purpose of this report, the dried-fruit snacks are part of the snacks industry which comprises fruit snacks, chips/crisps, extruded snacks, tortilla/corn chips, popcorn, pretzels, nuts and other snacks. The dried-fruit snacks are part of the fruit snacks, however, given its small size, data regarding this subcategory is limited. The analysis presented

below aims to describe the snacks industry in Europe, focusing on the fruit snacks and the dried fruit snacks subcategory, when possible.

Market drivers: The key drivers of the snacks market are closely related to the main reasons or occasions for its consumption: lifestyle, nutrition and indulgence. Urbanization leads to busier lifestyles, increasing the demand for convenient and on-the go snacks options. The health concern among consumers has been also an important driver for more health-orientated snacks categories, such as fruit snacks and nuts. In addition, the rise in the disposable income is able to drive the snacks sales as the snacks are mainly perceived as an indulgence goods.

Market size and growth: At a global level, over the last 5 years, the snacks market has been growing in terms of value (CAGR of 7,9%), having reached €94089 million in 2014, nevertheless this growth is expected to decelerate (CAGR of 5,2% for 2015-2020) as the industry reaches its maturity [Appendix 6]. However, market size and its growth prospects may differ across regions: North America and Europe are the largest markets, while Middle East and Africa as well as Latin America are the regions with the highest expected growth [Appendix 7]. Given that Europe is a mature market, during the considered period, the snacks market experienced a lower growth rate (4%), mainly fueled by the fruit snacks (CAGR of 4,5%) which remain, however, as a relatively small share (about 6% of total snacks sales) [Figure 1]. The forecast for the next 5 years suggests a moderate slowdown of both the snacks market (CAGR of 3,8%) and the fruit snacks subcategory (CAGR of 3,5%).



Source: Euromonitor International

However, the market size and growth of the fruit snacks category may also differ across European countries. For instance, in Portugal, while the snacks sales have been growing in line with Europe (CAGR of 3,9%), fruit snacks has been experiencing a boost (CAGR of 14,9%), which is partially explained by the relatively small size of this category [Appendices 8 and 9].

Porter 5 Forces: According to Porter (1979), the configuration of five competitive forces – threat of entry, supplier power, buyer power, threat of substitutes and internal rivalry determines the industry’s profitability. In response to criticisms, Porter (2008) recognized the importance of complements as one of the factors affecting the industry. The in-depth 6 Forces analysis [Appendix 10] suggests a moderate threat of entry, supplier and buyer power as well as the internal rivalry while the threat of substitutes is high and complements’ ability to drive snack sales is considered to be low. The summarized 6 Forces analysis is presented below [Figure 2].

Figure 2 – 6 Forces analysis: Snacks industry in Europe

Threat of Entry Moderate ↑	<ul style="list-style-type: none"> Well-established global players such as PepsiCo and Kellogg are able to enjoy significant scale and scope economies The technology and the required know-how are relatively easy to access Agricultural raw materials are easily accessible, especially for fruit-producers countries (China, Turkey and USA), whose farmers may be willing to vertically integrate Access to the distribution channels may constitute a significant entry barrier to overcome Forecasted sales growth in the snacks industry will invite new entrants
Threat of Substitutes High ≈	<ul style="list-style-type: none"> Main substitutes are fresh fruit, confectionary and, at some extent, drinks, given the similarity in terms of benefits, the occasion for use and their placement Snacks are a preferable option over fruit for retailers, since they yield relatively higher revenue per occupied shelf “Calories-sensitive” consumers prefer fresh fruit while the more price-sensitive consumers may prefer cheaper (in comparison with some dried-fruit snacks) confectionary products
Supplier Power Moderate ≈	<ul style="list-style-type: none"> The main suppliers are the ingredient suppliers (mainly agricultural producers) as well as the providers of packaging services and factory automation equipment The power of the agricultural suppliers is low, since snacks firms usually represent a large percentage of their purchases. However, in countries which traditionally produce fruit/vegetables backward and forward integration are common strategies, increasing the supplier power
Buyer Power Moderate ↑	<ul style="list-style-type: none"> Main buyers are super and hypermarkets, presenting high bargaining power due to its large size and its extensive own-brands offer, followed by small grocery retailers which are more common in developing countries (Eastern Europe), weakening the buyer power in this regions End-consumers are price-sensitive given that snacks are perceived as non-essential goods A few well-established players through its strong brands are able to drive down the buyer’s bargaining power
Internal Rivalry Moderate ↑	<ul style="list-style-type: none"> At the global level, the industry is led by PepsiCo (29%), followed by Kellogg’s (5%), while at the country level, it is more fragmented (PepsiCo subsidiary as well as the retailers are also often sizeable players) Overall, the differentiation is not significant, however for niche players the competition may be less fierce and these players, if successful are usually subject to acquisition Although the industry is growing, as some categories reach maturity, the growth is decelerating, increasing the internal rivalry, which may be lower in the emerging fruit and nuts segments
Complements Low ↑	<ul style="list-style-type: none"> Savory snacks (such as chips) are commonly incorporated in meals, while sweet snacks can be used with other products, however the ability of these complements to drive snacks sales is not significant Fruit snacks, especially dried fruit snacks are more versatile: they can be incorporated in other products such as yoghurt or cereals as well as bundled with the so-called “superfoods”, such as goji seeds and detox juices

Competitive Landscape

The snacks industry is broad, making the range of Frutaformas' competitors extensive in terms of both the number of competitors as well as the type of snacks offered. As a result, a more detailed analysis is performed to the dried-fruit snacks players which given the similarity of its product portfolio, are considered to be the Frutaformas' direct competitors in Portugal. The largest player is *Ferbar* which represented 3% of market share in snacks sales in 2014 [Appendix 11]. Other Frutaformas' main competitors include *Fruut* (1% of snacks sales in 2014), and *Frubis*, distributed in the main super and hypermarkets as well as through vending machines. Niche players such as *Hands on Earth*, *Gouchi* and *Desidrata* are smaller players, comparable to Frutaformas, sold mainly online, through the gourmet and small grocery shops at a relatively higher average price. Contrary to *Ferbar* and the private labels, these players are dried-fruit producers, being frequently vertically integrated with its agricultural suppliers.

The competition analysis in this segment reveals a low number of players with relatively recent presence, which highlights the fact that the dried-fruit industry in Portugal is not mature (in contrast to the snacks industry), experiencing a growth stage in its product life cycle. In relation to its direct competitors, Frutaformas is smaller compared to *Ferbar* and *Fruut* and its fruit variety is notably lower compared to the niche direct competitors [Appendix 12].

COMPETITIVE ADVANTAGE

In order to assess the company's competitive advantage, the key success factors in the snacks industry should be identified, based on which a set of strategically important resources are identified and Frutaformas' relative strength is appraised.

Key success factors

Several factors contribute for the success in the snack industry: while some players invest heavily on innovation and product adaptability to fast-changing customer demand, other

concentrate their attention on the competitive pricing strategy or on the availability in the relevant distribution channels given the impulsive consumption of these products [Table 1].

Table 1 - Key success factors in the snacks industry

Key success factor	Justification
Differentiation and innovative products	The maturity of the snacks industry forces the players to launch differentiated and innovative products in order to register sales growth.
Competitive pricing	High price-sensitivity of consumers jointly with high and growing competition forces also the players to compete on prices.
Product availability in key points of sale	Given that snacks are a non-essential product, it is usually acquired by consumers by impulse. As a result, the availability of the product in key distribution channels and points of sale may be decisive.
Adaptability to changing customer preferences	Trends of healthier and more nutritious snacks options requires the players to quickly respond to the new trends by modifying its current products or by launching a healthier or more nutritious lines.

Organizational resource platform

The above mentioned key success factors require a company operating in this industry to possess a set of specialized assets, competencies as well as important relations and to perform superiorly in relation to the identified competitive set. The organizational resource platform of Frutaformas was assessed, suggesting the new product development, the product quality recognition, the relationship with suppliers and the responsiveness to market trends as the key company's strengths [Appendix 13].

VRINNO framework

In order to provide a sustainable competitive advantage a resource should be (i) valuable (ii) rare (iii) imperfectly imitable and (iv) non-substitutable (Barney 1991), the framework that was later modified to what is renowned as the VRINNO framework. By appraising Frutaformas' key strengths against the VRINNO framework, it was revealed that while the identified key resources are valuable (V) and rare (R), all of them are potentially replicable and substitutable (N) as competitors may be able to build the same capability by contracting knowledgeable specialists to launch new products as well as to establish relationships with key suppliers or backward integrate them. As a result, although the company reveals some sort of source of competitive advantage, its sustainability is threatened.

SWOT-TOWS ANALYSIS

The internal and external analysis of Frutaformas are summarized into a SWOT matrix, complemented with a TOWS analysis which highlights possible strategies a company can follow to cope with the identified opportunities and threats [Figure 3].

Figure 3 - Frutaformas' SWOT-TOWS

	Helpful	Harmful
Internal	<u>Strengths (S):</u> (1) 100% natural, nutritious and gluten-free products (2) Predominantly variable cost structure (3) Use of authentic Portuguese fruit and the proximity to the main suppliers (4) Quality recognition (Great Taste Awards, Nutrition Awards) (5) Premium design and packaging	<u>Weaknesses (W):</u> (1) Lack of production scale limit the scale economies (2) Lack of patent for fruit bars whose quality is recognized (3) High-calories product compared with fresh fruit or vegetables (approximately 200% of fresh fruit caloric content) (4) Relatively limited financial resources
External	<u>Opportunities (O):</u> (1) Superfoods (Goji berries, detox juices, etc.) growing popularity (2) Recognition of Portuguese fruits abroad (ex.: "Rocha" pear and "Alcobaça" apple) (3) Trend for low-calories and natural snacks (4) Steady interest in more premium-positioned snacks in general	<u>Threats (T):</u> (1) Fruit seasonality may undermine profits (2) Growing competition in the dried-fruit snacks market (3) Potential entry of well-established international dried-fruit competitors with a significant competitive advantage

Frutaformas can leverage its fruit origin stamp to take advantage of the Portuguese fruit recognition abroad (S3-O2) as well as the healthy and nutritious value of its products to bundle it with other natural-based products, taking advantage of the superfoods' growing popularity (S1-O1). To target consumers seeking low-caloric snacks, a dehydration process may be revised to reduce the caloric content of Frutaformas' products (W3-O3). The company should also adopt strategies to face potential threats: backwards integration is suggested to mitigate the fruit seasonality's impact on costs (S3-T1), while the leverage of the obtained awards is recommended to compete on quality (S4-T2). In addition, to cope with the current and potential competitors, Frutaformas should consider increasing its production scale to reduce the unit cost (W1-T2/T3) and to register a patent for its fruit bars (W2-T2/T3).

INTERNATIONALIZATION READINESS

The performed internal and external analysis was fundamental in order to use the CORE™ tool which consists on a set of questions on the following dimensions: competitive capabilities in

the domestic market; motivation for going international; commitment of top management; product readiness for foreign markets; skills, knowledge and resources; and experience and training, aiming to evaluate the firm's internationalization readiness, more specifically, its ability to export. The results suggest a moderate internationalization readiness of Frutaformas, having scored "moderate" on all dimensions, except for skills, knowledge and resources and competitive capabilities in the domestic market dimensions [**Appendix 14**]. As a result, Frutaformas may engage in exporting, bearing in mind, however, that improvement in terms of management knowledge about foreign markets is highly recommended.

The company has been considering Europe to start its internationalization given both geographical and cultural proximity as well as the market size and the observed growth of the fruit snacks. However, the potential differences of these factors across European countries require an in-depth analysis in order to select the preferential target country, at this stage.

COUNTRY SELECTION

According to Cavusgil (1985), the foreign market can be assessed in a three-step process: preliminary screening, assessment of industry market potential and an analysis of sales potential taking into account the company's unique product and circumstances. The preliminary screening, presented in this section, aims to identify high potential country markets by combining the two basic screening methodologies: (i) gradual elimination and (ii) ranking. First, a gradual elimination will be used in order to reduce the initial set of countries based on macro-level indicators. After, for the remaining set of countries, scores will be assigned for their overall market attractiveness measured by a set of both macro and micro-level variables.

(i) Gradual elimination

The initial set of countries comprised the European continent, given Frutaformas interest in pursuing this internationalization path. The urban population was the first knock-out criterion used, with the respective threshold of 2 million, given that one of the goals of

internationalization of Frutaformas is to increase its production scale, an objective that can be limited by the market size. Furthermore, the remaining countries were screened according to the economic freedom, with the established threshold of 60 (below which countries are considered “mostly unfree”) and the country risk, with the defined threshold of BBB (below which the risk is substantial). The resulted set of countries was composed by 22 countries subject to the scoring model defined below, including Portugal for comparison reasons.

(ii) Ranking

One of the primary methods for identifying target markets is to rank countries on some meaningful indicators of market potential. The main variables used in the market potential analysis are related to: market size, market growth rate, market intensity, commercial infrastructure, market receptivity, free market structure and country risk (Cavusgil *et al.*, 2004). Following the above described approach, in order to assess the market potential, a set of criteria were used, aiming to average the overall country attractiveness (macro-level) and, specifically, the dried-fruit snacks industry attractiveness (micro-level):

- **Urban population** (1) – represents the market size by measuring the number of potential customers. Urban population is used instead of total country’s population due to the lower likelihood of availability of this product in the rural areas.
- **Gross National Income (GNI) per capita PPP** (2) – represents the market intensity by measuring the individual disposable income. GNI is used to take into account the net income received from or paid to overseas, while the PPP factor allows for a more accurate comparison.
- **Gross Domestic Product (GDP) real growth rate** (3) – reflects the prospects of economic growth being highly correlated with the evolution of the disposable income in the country.
- **Economic freedom index** (4) – represents the degree of the country’s free market structure. Special attention is given to its subcomponents: **trade** (5) and **fiscal freedom** (6) given the impact of these factors on the easiness of entry and on the profitability of the exporting firm.

- **Country risk** (7) – averages sovereign, banking sector, political, economic as well as the **currency risk** (8) which is taken separately given the high impact of a currency devaluation on an exporting company's sales.
- **Fruit snacks industry market size** (9) and **growth** (10) – represents more specifically the market size (through the fruit snacks' sales) and its forecasted annual growth rate.
- **Fruit snacks consumption per capita** (11) – evaluates the market intensity, namely the average consumer expenditure on fruit snacks registered in each country.
- **Share of fruit snacks in total snacks sales** (12) – represents the snacks consumers' preference by fruit snacks compared to other available snacks options.
- **Competition in snacks industry: Herfindahl-Hirschman Index (HHI)** (13) – takes into account the concentration of the snacks industry. Generally, a high level of concentration suggests low level of competition, making the market more attractive.
- **Organic food consumption per capita** (14) – reflects the consumers' health awareness towards nutrition, since these consumers are more likely to buy the dried-fruit snacks.

Table 2 summarizes the previously mentioned variables (detailed in **Appendix 15**) and the respective weights which were based on Cavusgil approach, the correlations observed between the variables [**Appendix 16**] as well as the company's perspective.

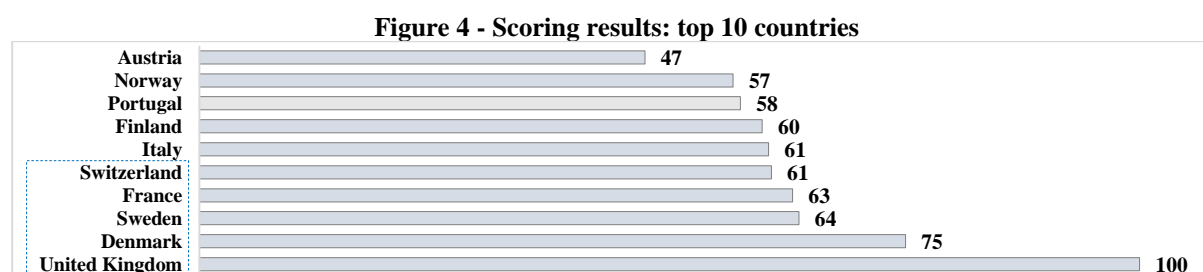
Table 2 - Scoring model: criteria and weights

Level of screening	Weight	Criterion	Weight
Macro-level	15%	(1) Urban population (total)	3,5%
		(2) GNI per capita (in PPP)	3,5%
		(3) GDP real growth rate (in %)	3,0%
		(4) Economic freedom index (1-100)	1,0%
		(5) Fiscal freedom index (1-100)	1,0%
		(6) Trade freedom index (1-100)	1,0%
		(7) Country risk index (AAA - CC)	1,0%
		(8) Currency risk index (AAA - CC)	1,0%
Micro-level	85%	(9) Fruit snacks market size (in value)	25,0%
		(10) Fruit snacks market growth (CAGR in %)	20,0%
		(11) Fruit snacks consumption per capita (in value)	5,0%
		(12) Share of fruit snacks in the snacks sales (in %)	10,0%
		(13) Competition in snacks industry: Herfindahl-Hirschman Index	10,0%
		(14) Organic food consumption per capita (in value)	10,0%

After having gathering the values for all the chosen variables, some adjustments were made: nominal variables were transformed into a numerical scale, variables with negative factor loading were reversed and all the data was standardized into a range of 0-100, given the different scales present across the variables.

Results

The scoring model produced an individual overall score by calculating the weighted average score for each country [Appendix 17]. The UK obtained the highest score (driven mainly by the market size), followed by Denmark and Sweden, while Portugal ranked #8 in the set of included countries [Figure 4].



An additional research suggests UK, France and Switzerland as top European countries in terms of dried fruit consumption per capita, which reinforces the attractiveness of these markets [Appendix 5]. Among these 3 countries, the UK is the largest EU dried fruit importer, which combined with the obtained score contribute for the selection of the UK as target country.

DETAILED COUNTRY ANALYSIS: UNITED KINGDOM

The suggested country in the scoring model will be analyzed in detail in order to confirm the UK as a suitable country as well as to adjust the entry conditions to the country environment.

Macro-environmental analysis

The PESTLE framework [Figure 5] presents an overview of the different macro-environmental factors that the company has to take into consideration [Appendix 18].

Figure 5 - PESTLE analysis: United Kingdom

Political	<ul style="list-style-type: none"> • strong democratic structure: one of the most successful nations in terms of the freedom of expression, freedom of association, and a free media • politically stable: ranks #61 in terms of political stability and absence of violence/terrorism • effective governance: over-performed the OECD average in terms of government effectiveness, regulatory quality, rule of law and control of corruption • strong position in world politics and economics: membership of organizations such as NATO, OECD, and United Nations Security Council, among others • weakened relations with EU: referendum on exiting the EU, scheduled for 2017, poll shows voters edging towards a Brexit
Economical	<ul style="list-style-type: none"> • one of the largest economy - #11 according the GDP PPP and #40 when measured per capita • strong and above the European average prospects of economic growth: forecasted real GDP growth of 2,2% between 2015-16 • trade imbalance: the largest trade deficits are registered with Germany, China and Netherlands • favorable business climate: ranks #6 in terms of ease of doing business • high level of indebtedness: 10th highest household debt (154% of net disposable income) and 24th in terms of public debt level (80% of GDP)
Social	<ul style="list-style-type: none"> • one of the highest educational attainment: about 48% of population with tertiary level of education • high health awareness: fruit and vegetable consumption as well as the physical activity level is above the OECD average although in terms of obesity rates, UK scores above the OECD • aging population: high and growing aging index • main destination of Portuguese emigrants (specially qualified workforce) • shopping at convenience stores is growing: during holidays when the primary reason is to top-up on fruit and vegetables (31%), followed by purchasing a snack (28%) • supermarkets own-label brands popularity: 63% of consumers perceive store brands as having the same quality as the branded alternatives
Techno-logical	<ul style="list-style-type: none"> • head of innovation: 1,6% of its GDP on R&D in 2013, focusing on innovation in technology-intensive industries such as pharmaceuticals and telecommunications • sizeable online business: one of the largest e-commerce and online advertising markets, turning the being online a priority for local companies
Legal	<ul style="list-style-type: none"> • highly efficient legal system: #13 in terms of economic freedom • transparent and efficient regulatory environment for doing business: starting a business requires six procedures and less than one week and contracts are enforceable
Environ-mental	<ul style="list-style-type: none"> • promotion of organic farming has been emphasized in the UK which represented 3,43% of the total organic agricultural land in 2012

Industry analysis

The following analysis summarizes the core facts about the snacks industry in the UK focusing on the fruit snacks sub-category, and in case the needed detail exists, on the dried-fruit snacks.

Market size: The **snacks industry** represented £4394,2 million (€5453,45 million) in terms of market value in 2014, being 26 times larger when compared with its Portuguese counterpart [Appendix 19]. In terms of the **fruit snacks**, this market reached £252,72 million (€312,4 million), representing 5,73% of the total snacks industry when in Portugal the same subcategory has been more representative (13,7% of the total snacks sales). In terms of the **dried-fruit snacks**, it is important to mention that the UK is Europe's dried fruit largest market, having

accounted for approximately 25% of all EU and 10% of total world imports. The majority of the imported dried fruits are from Turkey (38%), USA (13%) and Germany (11%).

Market growth: Over the last 5 years, the snacks market has been registering an average growth of 3,95% in value terms, driven mainly by the popcorn, nuts and tortilla chips categories and by the fruit snacks (CAGR of 4,27%) [**Appendix 20**]. Although the forecast for the following 5 years suggests a moderate slowdown in terms of value growth rate for the fruit snacks (CAGR of 2,19%), this category will be the core driver of the snacks sales (CAGR of 1,17%). The deceleration of growth compared to the historical one suggests a mature market.

Market characteristics: The higher maturity of the fruit snacks (including the dried-fruit snacks) contributes to some relevant differences between the Portuguese and British markets. First, in the UK, the dried fruit is more commonly used in breakfast cereals, bakery and dairy products and desserts, which reinforces the ability of these complementary products to drive the dried-fruit snacks sales. Second, the retail-owned brands have much more presence in this category compared to its Portuguese counterparts: while in Portugal the retailers mostly offer traditional dried fruit (apricots, prunes, raisins and figs), in the UK, dried apples, bananas and berries are part of the retailers' product portfolio. In fact, the competition in the British dried-fruit snacks market is higher when compared to the Portuguese market where the category is still emerging. Lower rivalry may be found in niche markets for differentiated offers such as organic or fair trade products. Thirdly, the fruit snacks' more mature stage is also highlighted by the lower threat of its substitutes - the increased demand of healthy snacks led the retailers *Tesco* and *Lidl* to remove confectionary snacks from checkouts and to replace them with nuts and fruit snacks.

Competitive Landscape

The snacks industry is dominated by the PepsiCo subsidiary - Walkers Snacks Foods (31% of market shares in 2014), followed by the retail-owned brands (17%), KP Snacks (10%) and

Kellog (7%), while the major players in the fruit snacks subcategory are relatively small: Whitworth (2%), Sun-maid Growers of California (0,3%) and Fruit Bowl (0,4%) [**Appendix 21**], offering the former two dried-fruit snacks, among other options.

The dried fruit snacks industry in the UK is highly fragmented given the low entry barriers and the high market demand for these products. The players in this market can be divided in the three following groups: retail-owned brands (*Tesco, ASDA, Sainsbury's, Morrison and Waitrose*), private labels distributed through the largest UK retailers (*Whitworths, Sunmaid, Forest Feast, Urban Fruit and Ocean Spray*) and private premium labels aiming to fill niche opportunities through the superior fruit quality, organic stamp or fair trade certification (*Crazy Jack, Planet Organic, Tropical Wholefoods, Vitasnack*, among others).

Considering the dried-fruit distributed through the largest retailers, notwithstanding the more competitive environment in the UK, the price is higher compared to the average one in the Portuguese distribution channels: dried apple per 100g is sold at £3,1 (~€4,3) in the largest retailers and at £5,9 (~€8,2) in the gourmet shops in the UK, contrasting with the respective equivalent average prices of €3,9 and €6,5 observed in Portugal. The most common fruits found in the dried-fruit snacks offer in the UK are mango, apricots, prunes, figs and dates (the so-called traditional dried fruit), followed by a variety of berries (cranberries, blueberries and strawberries) and cherries.

UK entry mode

As previously mentioned, the lack of international experience combined with the relatively limited resources suggest exporting as the preferential entry mode at this stage. However, a firm may define the degree of export involvement, whose basic forms are direct and indirect exporting. While direct exporters deliver its products into the target market by selling it directly to local intermediaries, indirect exporters sell its merchandises to domestic intermediaries who then resell it to buyers in a target country. While the main advantages of the direct exporting

are the valuable market knowledge, and the higher level of control over the distribution channels and the marketing strategy, indirect exporting allows a firm (i) to reduce the costs related with searching for distribution channels and (ii) to overcome the limited market knowledge. In the agri-food industry, the probability of choosing the direct exporting mode increase with the firm size, its technological resources and the accumulated international experience (Fernández-Olmos and Díez-Vial, 2014). Given the small size of Frutaformas, its limited resources, the reduced international experience and the lack of a relevant network in the UK, the indirect exporting through an agent (to whom a commission based on the value of its sales is paid) is suggested as the preferential entry mode at this stage.

Financial analysis

Although the Marketing plan is out of scope of the present work, some lines for the marketing-mix are given below in order to discuss the sales potential the UK represents for Frutaformas. Frutaformas should start by exporting its dried-fruit bars: *Lingotes Ananás dos Açores* and *Lingotes Maçã&Canela* given the previously mentioned recognition of these two products by the UK Taste Award. In addition, in order to promote the fruit bars, a more familiar product to British consumers should be sold – *Croca Maçã* (dried apple snack), Frutaformas' best seller. Taking into account the competitive environment and Frutaformas' offering, the company's above mentioned product fill the niche market of high-quality and authentic fruit. As a result, the suggested distribution channels may comprise gourmet and natural/health-based retailers and given the size of the online market in the UK, placement in similar online gourmet and natural shops is suggested. The pricing strategy should take into account the average Recommended Retail Price practiced by the premium dried-apple snacks (~£5,9) [**Appendix 22**] as well as the existence of similarly positioned offers.

Several factors should be taken into account when assessing the viability of the entry in the UK dried-fruit snacks market. Regarding the investment needed, the entry in the UK does not

require significant investments as Frutaformas currently holds spare production capacity (~50%) which is expected to accommodate both the projected sales in the domestic market as well as the one in the UK. In addition, no modifications regarding packaging are necessary as the requirements regarding these products are similar across EU countries. Other investments may include investments to protect intellectual property (trademark registration and patent for the fruit bars), as well as marketing expenses related, for instance, with the participation in fairs. Besides the previously mentioned costs, factors affecting the unit contribution margin should be taken into account. First, in addition to the retailer's margin (40%), the contribution margin of each product is expected to be subject to the agent commission (10%) and the shipping cost (10%), average figures in the dried-fruit industry [**Appendix 23**]. The suggested prices provide higher contribution margins (on average 23% higher) compared to those earned in the domestic market, highlighting the fact that no opportunity cost should be considered at the current stage. Finally, besides the above mentioned costs, the firm must take into account the potential savings resulted from the scale economies arising from the increase in its production scale.

Risk analysis

The success of the internationalization to the UK can be potentially jeopardized by several risk factors differing in terms of its probability of occurrence, level of control as well as the impact on Frutaformas' projected profit, the main of which are listed below.

Country-level risk: The UK scores relatively well at political risk, suggesting a secure business environment. However, a risk of the Brexit should be considered, as it could imply an abolishment of the current free trade, which results from the country belongingness to the Customs Union, according to which no customs duties are paid on goods moving between EU countries. In addition, the currency depreciation could also have a negative impact on the intermediary revenues' earned in GBP and, consequently on Frutaformas as the agent may be willing to renegotiate the contract conditions to mitigate the unpredicted losses.

Managerial risk: The management of the relationship with the selected agent is also an important issue to be considered as they usually represent several indirect exporters simultaneously, thus the commercial effort they devote to the products depends on the earned commission as well as on the relationship established with the firm. As a result, the deterioration of one of these factors may negatively impact the promotional effort of the agent.

Business risk: Using the current spare capacity to sell in the UK may force the company to abdicate on sporadic orders (including foreign) which could potentially yield higher margins. This is especially important for the Christmas period when the company's sales experience a seasonal growth, especially for the Corporate product line.

Competitive risk: The intellectual property of Frutaformas is also subject to some risk. By entering the UK market with fruit bars which do not possess patents, the company incurs the risk of imitation. Furthermore, the risk of increasing competition should be considered. First, a threat of new entry may be expected from Portuguese companies (such as *Fruut* or some of the niche domestic players), whose entry in the UK dried fruit snacks market may be established with a similar positioning, by leveraging the fruit origin and associated quality. Second, the threat of entry may emerge from the largest producers of apple and pear (China and USA) and pineapple (Thailand and Costa Rica), as the popularity of these dried fruit, combined with low entry barriers, may propel vertical integration.

Market risk: Risk related specifically to the dried-fruit snacks market prospects should also be considered. Although a market growth for the fruit snacks industry is projected for the next 5 years, this does not necessarily imply the same growth for the dried-fruit snacks subcategory. Moreover, besides traditional dried fruit, the market in the UK is dominated by dried berries, considered to be a typical British fruit. As a result, consumers may prefer its local fruit being less receptive to the dehydrated apple and pear, and especially fruit bars, whose texture is different.

CONCLUSIONS AND FINAL RECOMMENDATIONS

The conducted internationalization research suggested the United Kingdom as the preferential target country Frutaformas should enter in, while the indirect exporting through an agent is a suggested entry mode. Although the UK is an attractive market, Frutaformas is highly recommended to conduct an in-depth market analysis in order to estimate the sales potential and to assess this first internationalization step.

Based on the detailed country analysis, a set of recommendations are provided in order to both mitigate the previously identified risks as well as to undertake some actions to take advantage of emerging opportunities. Regarding the **risks**, first of all, the company should consider protecting its intellectual property regarding the fruit bars which is the suggested export product. Second, an extension of the product portfolio in terms of fruit variety is recommended, leveraging, for instance, the Portuguese cherry (*Cereja do Fundão*) to meet the UK consumers demand preferences. Third, in order to closely monitor the sales performance and to get useful market insights, a close relationship with the agent is recommended at this stage, while later, as the sales volume increases, a direct exporting mode may be analyzed. Additionally, a set of actions may be undertaken to take advantage of **opportunities** related with the entry in the UK. First, Frutaformas may investigate an option of selling its dried-fruit as in input bundled with other complementary products, similarly to a partnership established with *GoNatural* in the domestic market. In addition, in order to promote the products, a participation in the agri-food fairs (such as the *Speciality&Fine Food Fair* and *International Food&Drink event*) is suggested. Finally, Portuguese gourmet shops (such as *A Portuguese Love Affair*) should be evaluated as potential distribution channels, given that the UK is one of the top destination of Portuguese qualified emigrants, making the so-called “nostalgic market” an attractive option. As exporting to the United Kingdom starts to bear fruit, Frutaformas is encouraged to consider other markets, as timing may be one of the key issue in the emerging markets.

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